

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Boardman Township	County Kalkaska
Fiscal Year End 06/30/2007	Opinion Date November 27, 2007	Date Audit Report Submitted to State December 14, 2007	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Letter of Significant Deficiencies	
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number (231) 775-9789	
Street Address 134 West Harris Street		City Cadillac	State MI
		Zip 49601	
Authorizing CPA Signature 		Printed Name Scott A. Hunter, C.P.A.	License Number 1101009890

BOARDMAN TOWNSHIP, KALKASKA COUNTY

SOUTH BOARDMAN, MICHIGAN

JUNE 30, 2007

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

www.bcbcpa.com

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

JUNE 30, 2007

TABLE OF CONTENTS

	<u>PAGES</u>
Independent Auditors' Report	i-ii
Management's Discussion and Analysis	iii-ix
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balance	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	6
Fiduciary Funds	
Statement of Fiduciary Net Assets	7
Notes to Financial Statements	8-19
Required Supplementary Information	
Budgetary Comparison Schedule - Major Governmental Funds	20
Individual Fund Financial Statements	
Major Governmental Funds	
<u>General Fund</u>	
Comparative Balance Sheet	21
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	22-23
<u>Fire Fund</u>	
Comparative Balance Sheet	24
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	25-26
<u>Road Fund</u>	
Comparative Balance Sheet	27
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	28

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

JUNE 30, 2007

TABLE OF CONTENTS

	<u>PAGES</u>
Agency Funds	
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	29-30
Other Information	
Statement of 2006 Tax Roll	31-32

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

www.bcbcpa.com

November 27, 2007

INDEPENDENT AUDITORS' REPORT

To the Township Board
Boardman Township
Kalkaska County
South Boardman, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Boardman Township, Kalkaska County, South Boardman, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Boardman Township, Kalkaska County, South Boardman, Michigan, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through ix and budgetary comparison information on page 20 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Boardman Township, Kalkaska County, South Boardman, Michigan's basic financial statements. The individual fund financial statements and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2007

Boardman Township, a general law township located in Kalkaska County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Boardman Township board's discussion and analysis of the financial results for the fiscal year ended June 30, 2007, along with specific comparative information as required.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$796,303. Of this amount, \$250,597 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$455,104 a decrease of \$9,777 in comparison with the prior year. About 53.28% is available for spending at the Township's discretion.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The Township's entire assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The Township does not have any business-type activities.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2007

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township does not maintain any proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township’s financial position over time. The Net Assets of the Township are \$796,303 at June 30, 2007, meaning the Township’s assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. A comparison with the previous fiscal year is presented in order to show the change in Net Assets over the previous year.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2007

Boardman Township
Net Assets as of June 30,

	<u>2007</u>	<u>2006</u>
Assets		
Current Assets	\$ 460,990	\$ 468,778
Non Current Assets		
Capital Assets	671,706	578,248
Less: Accumulated Depreciation	<u>(258,690)</u>	<u>(225,456)</u>
Total Non Current Assets	<u>413,016</u>	<u>352,792</u>
Total Assets	<u><u>\$ 874,006</u></u>	<u><u>\$ 821,570</u></u>
Liabilities		
Current Liabilities	\$ 12,631	\$ 27,192
Long-term Liabilities	<u>65,072</u>	<u>71,817</u>
Total Liabilities	<u>77,703</u>	<u>99,009</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	341,199	257,807
Restricted for Specific Purposes	204,507	224,123
Unrestricted	<u>250,597</u>	<u>240,631</u>
Total Net Assets	<u>796,303</u>	<u>722,561</u>
Total Liabilities and Net Assets	<u><u>\$ 874,006</u></u>	<u><u>\$ 821,570</u></u>

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, and others) less any related debt that is outstanding that the Township used to acquire the asset. The Township has \$250,597 of unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental activities.

The total net assets of the Township increased by \$73,742 or 10.21% in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2007

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

Boardman Township
Change in Net Assets
for the Fiscal Year Ended June 30,

	<u>2007</u>	<u>2006</u>
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$ 20,958	\$ 18,637
Operating Grants	4,505	3,137
General Revenues		
Property Taxes	144,133	131,969
State Grants	102,515	119,077
Investment Earnings	16,490	14,144
Other	2,284	3,361
Total Revenues	<u>290,885</u>	<u>290,325</u>
<u>Expenses</u>		
Legislative	16,361	13,970
General Government	93,697	78,421
Public Safety	73,757	85,446
Public Works	11,736	9,365
Health and Welfare	304	280
Community and Economic Development	3,103	2,718
Recreation and Culture	13,948	15,024
Interest on Long-Term Debt	4,237	1,856
Total Expenses	<u>217,143</u>	<u>207,080</u>
Change in Net Assets	73,742	83,245
NET ASSETS - Beginning of Year	<u>722,561</u>	<u>639,316</u>
NET ASSETS - End of Year	<u><u>\$ 796,303</u></u>	<u><u>\$ 722,561</u></u>

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2007

Governmental Activities

During the fiscal year ended June 30, 2007, the Township's net assets increased by \$73,742 or 10.21% in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of Boardman Township comes from property taxes. The Township levied millages for road improvement and fire protection, in addition to the operating millage. The Township levied 0.8714 mills for operating purposes, 2 mills for road improvement, and 1 mill for fire protection.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation. In 2007, the amount of state shared revenue received by the Township trended downward, representing decreasing sales tax collections and discretionary decreases by the State in revenue sharing payments.

The Township spent \$93,697 in fiscal year 2007 on general government expenses which represents 43.15% of total expenses. Public safety represented the next largest expense at \$73,757 followed by legislative at \$16,361, these represent 33.97% and 7.53% respectively.

Business-Type Activities

The Township does not maintain any Business-Type Activities.

Financial Analysis of the Government's Funds

Governmental Funds The focus of Boardman Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Boardman Township's governmental funds reported combined ending fund balances of \$455,104. Approximately 53.28% of this total amount (\$242,502) constitutes unreserved fund balance. The remainder of the fund balance is reserved or designated for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is reserved for fire protection must be used for expenditures that relate to fire protection.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2007

General Fund – The General Fund's fund balance increased by \$11,480 which brings the fund balance to \$255,434. Of the fund balance, \$242,502 is unreserved while \$8,095 is reserved for prepaid expenditures, and \$4,837 is reserved for Telecommunications Right-of-Way Maintenance.

Fire Fund – The Fire Fund's fund balance decreased by (\$7,037) which brings the fund balance to \$22,048. This balance is reserved and must be used for fire protection.

The Township levied a fire millage on the 2006 tax roll. This resulted in \$33,055 in tax related revenues during the current fiscal year. The Township also contracts with Orange Township for fire protection which generated \$10,512 in revenues for Boardman Township.

Road Improvement Fund – The Road Improvement Fund decreased its fund balance by (\$14,220) which brings the fund balance to \$177,622. The balance is reserved and must be used for road improvements.

The Township did once again levy a road improvement millage on the 2006 tax roll. Tax related revenues totaled \$66,114 for the current fiscal year. The Township has completed the work on Boardman River Road and various other streets of Boardman Township at a total cost of \$86,967.

Proprietary Fund The Township does not maintain any proprietary funds.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental activities as of June 30, 2007 amounted to \$413,016 net of accumulated depreciation. The total net increase in the Township's investment in capital assets for the current year was 17.07%.

Capital assets summarized below include any items purchased with a cost greater than \$500 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

Boardman Township
Capital Assets as of June 30,

	<u>2007</u>	<u>2006</u>
Land and Land Improvement	\$ 154,013	\$ 154,013
Buildings	13,978	13,978
Machinery and Equipment	352,697	346,206
Infrastructure	<u>151,018</u>	<u>64,051</u>
	671,706	578,248
Less Accumulated Depreciation	<u>(258,690)</u>	<u>(225,456)</u>
Net Capital Assets	<u><u>\$ 413,016</u></u>	<u><u>\$ 352,792</u></u>

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2007

Major capital asset additions during the current fiscal year included the following:

- ◆ Playground equipment was purchased at a cost of \$3,269.
- ◆ Construction was completed on Boardman River Road and various other streets of Boardman Township at a cost of \$86,967.

Long-Term Debt. At the end of the fiscal year, the Township had total installment debt outstanding of \$71,817. The entire balance of this debt is backed by the full faith and credit of the government. Additional information on the Township's long-term debt can be found in the notes to the financial statements.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential reductions in state-shared revenues.

These factors were considered in preparing the Township's budgets for the 2007-08 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Boardman Township at 4855 Pine Street SW, South Boardman, Michigan 49680.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
Cash	\$ 291,203
Investments	134,921
Prepaid Expenses	8,095
Receivables	
External Parties (Fiduciary Funds)	11,229
Due from Other Governments	<u>15,542</u>
Total Current Assets	<u>460,990</u>
<u>CAPITAL ASSETS</u>	
Land and Land Improvements	154,013
Buildings	13,978
Machinery and Equipment	352,697
Infrastructure	<u>151,018</u>
	671,706
Less Accumulated Depreciation	<u>(258,690)</u>
Net Capital Assets	<u>413,016</u>
TOTAL ASSETS	<u><u>\$ 874,006</u></u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$ 4,842
Accrued Expenditures	1,044
Current Portion of Long-Term Debt	<u>6,745</u>
Total Current Liabilities	<u>12,631</u>
<u>LONG-TERM LIABILITIES</u>	
Note Payable - Land	71,817
Less: Current Portion	<u>(6,745)</u>
Total Long-Term Liabilities	<u>65,072</u>
TOTAL LIABILITIES	<u>77,703</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	341,199
Restricted for Fire Protection	22,048
Restricted for Road Improvements	177,622
Restricted for Right-of-Way Maintenance	4,837
Unrestricted	<u>250,597</u>
Total Net Assets	<u>796,303</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 874,006</u></u>

The accompanying notes are an integral part of the financial statements.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	TOTAL GOVERNMENTAL ACTIVITIES
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>				
Legislative	\$ 16,361	\$ 0	\$ 0	\$ (16,361)
General Government	93,697	4,100	0	(89,597)
Public Safety	73,757	16,858	0	(56,899)
Public Works	11,736	0	4,505	(7,231)
Health and Welfare	304	0	0	(304)
Community and Economic Development	3,103	0	0	(3,103)
Recreation and Culture	13,948	0	0	(13,948)
Interest on Long-Term Debt	4,237	0	0	(4,237)
Total	\$ 217,143	\$ 20,958	\$ 4,505	(191,680)
<u>GENERAL REVENUES</u>				
Property Taxes				144,133
State Grants				102,515
Investment Earnings				16,490
Other				2,284
Total General Revenues				265,422
Change in Net Assets				73,742
<u>NET ASSETS</u> - Beginning of Year				722,561
<u>NET ASSETS</u> - End of Year				\$ 796,303

The accompanying notes are an integral part of the financial statements.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
JUNE 30, 2007

	GENERAL FUND	FIRE FUND	ROAD FUND	TOTALS
<u>ASSETS</u>				
Cash	\$ 90,300	\$ 23,281	\$ 177,622	\$ 291,203
Investments	134,921	0	0	134,921
Prepaid Expenditures	8,095	0	0	8,095
Due from Other Funds	12,304	0	0	12,304
Due from Other Governments	15,542	0	0	15,542
TOTAL ASSETS	<u>\$ 261,162</u>	<u>\$ 23,281</u>	<u>\$ 177,622</u>	<u>\$ 462,065</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 4,684	\$ 158	\$ 0	\$ 4,842
Accrued Expenditures	1,044	0	0	1,044
Due to Other Funds	0	1,075	0	1,075
Total Liabilities	<u>5,728</u>	<u>1,233</u>	<u>0</u>	<u>6,961</u>
<u>FUND BALANCE</u>				
Reserved for:				
Fire Protection	0	22,048	0	22,048
Road Improvements	0	0	177,622	177,622
Prepaid Expenditures	8,095	0	0	8,095
Right-of-Way Maintenance	4,837	0	0	4,837
Unreserved				
Undesignated	242,502	0	0	242,502
Total Fund Balance	<u>255,434</u>	<u>22,048</u>	<u>177,622</u>	<u>455,104</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 261,162</u>	<u>\$ 23,281</u>	<u>\$ 177,622</u>	<u>\$ 462,065</u>

The accompanying notes are an integral part of the financial statements.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total Fund Balances for Governmental Funds	\$ 455,104
--	------------

Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	\$ 145,013	
Land Improvements	9,000	
Buildings	13,978	
Machinery and Equipment	352,697	
Infrastructure	151,018	
Accumulated Depreciation	<u>(258,690)</u>	413,016

Long-term liabilities are not due and payable in the current period
and therefore are not reported in the funds:

Notes Payable	<u>(71,817)</u>
---------------	-----------------

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 796,303</u></u>
---------------------------------------	--------------------------

The accompanying notes are an integral part of the financial statements.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2007

	GENERAL FUND	FIRE FUND	ROAD FUND	TOTALS
<u>REVENUES</u>				
Taxes	\$ 44,964	\$ 33,055	\$ 66,114	\$ 144,133
Licenses and Permits	4,390	0	0	4,390
Federal Grants	1,349	0	0	1,349
State Grants	105,671	0	0	105,671
Contributions from Local Units	0	10,512	0	10,512
Charges for Services	6,056	0	0	6,056
Interest and Rents	9,457	400	6,633	16,490
Other Revenues	1,984	300	0	2,284
Total Revenues	173,871	44,267	72,747	290,885
<u>EXPENDITURES</u>				
Legislative	16,361	0	0	16,361
General Government	91,387	0	0	91,387
Public Safety	19,725	33,954	0	53,679
Public Works	5,635	0	86,967	92,602
Health and Welfare	304	0	0	304
Community and Economic Development	3,103	0	0	3,103
Recreation and Culture	15,694	0	0	15,694
Debt Service	10,182	17,350	0	27,532
Total Expenditures	162,391	51,304	86,967	300,662
Excess (Deficiency) of Revenues Over Expenditures	11,480	(7,037)	(14,220)	(9,777)
<u>FUND BALANCE</u> - Beginning of Year	243,954	29,085	191,842	464,881
<u>FUND BALANCE</u> - End of Year	\$ 255,434	\$ 22,048	\$ 177,622	\$ 455,104

The accompanying notes are an integral part of the financial statements.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2007

Net change in Fund Balance - Total Governmental Funds	\$ (9,777)
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(33,234)
Capital Outlay	93,458
Accrued interest is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid.	
Accrued Interest Payable - Beginning of Year	127
Accrued Interest Payable - End of Year	0
Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).	<u>23,168</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 73,742</u></u>

The accompanying notes are an integral part of the financial statements.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 8,305
Due from Other Governments	<u>3,650</u>
 TOTAL ASSETS	 <u><u>\$ 11,955</u></u>
 <u>LIABILITIES</u>	
Due to Other Funds	\$ 11,229
Due to Other Governments	<u>726</u>
 TOTAL LIABILITIES	 <u><u>\$ 11,955</u></u>

The accompanying notes are an integral part of the financial statements.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Boardman Township is a general law township located in Kalkaska County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Boardman Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Fund* accounts for revenue sources that are legally restricted to expenditure for fire protection.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

The *Road Fund* accounts for revenue sources that are legally restricted to expenditure for road improvements.

Additionally Boardman Township reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of three months or less from date of acquisition.

(I) The Township Board has authorized the Township Treasurer to invest in the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution. Authorized depositories shall be designated by the Boardman Township Board at the Board's organizational meeting after each regular election of board members.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

- (c) Repurchase agreements consisting of instruments listed in subdivision (a).
- (d) Mutual funds registered under the Investment Company Act of 1940, Title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by the Township Treasurer. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and two-thirds of county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2006 taxable valuation of Boardman Township totaled \$32,976,534, on which ad valorem taxes levied consisted of 0.8714 mills for Boardman Township operating purposes, 2 mills for Boardman Township road improvements, and 1 mill for Boardman Township fire protection. These levies raised approximately \$28,688 for operating purposes, \$65,841 for road improvements, and \$32,917 for fire protection.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building improvements	20
Public domain infrastructure	50
System infrastructure	30
Vehicles	5
Equipment	5-10

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on May 14, 2006, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Funds with Expenditures in Excess of Appropriations were as follows:

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
General Government	\$ 85,000	\$ 91,387
Health and Welfare	280	304
Recreation and Culture	15,500	15,694
Debt Service	0	10,182

These overages were funded by greater than anticipated revenues and available fund balance.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Foreign currency risk. The Township is not authorized to invest in investments, which have this type of risk.

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2007, \$77,622 of the government's bank balance of \$299,592 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, all of the Township's investments were considered Category 1 as to risk.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

As of June 30, 2007 the Township had the following investments:

A reconciliation of cash and investments follows:

	<u>CARRYING AMOUNT</u>	<u>FAIR VALUE</u>
Investments - Primary Government		
U.S. Government Securities	\$ 36,694	\$ 36,694
Michigan Governmental Money Market Fund	98,227	98,227
	<u>\$ 134,921</u>	<u>\$ 134,921</u>

A reconciliation of cash and investments follows:

Carrying amount of Deposits	\$ 299,508
Carrying amount of Investments	<u>134,921</u>
Total	<u>\$ 434,429</u>
Government-wide Statement of Net Assets	
Cash	\$ 291,203
Investments	134,921
Statement of Fiduciary Net Assets	
Cash	<u>8,305</u>
Total	<u>\$ 434,429</u>

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

	<u>General</u>	<u>Fire</u>	<u>Road</u>	<u>Total</u>
Receivables				
Agency Funds	<u>\$ 11,229</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,229</u>

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

No deferred revenue was recorded in any of the funds at the end of the fiscal year.

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 145,013	\$ 0	\$ 0	\$ 145,013
Capital assets, being depreciated				
Buildings	13,978	0	0	13,978
Land Improvements	9,000	0	0	9,000
Machinery and Equipment	346,206	6,491	0	352,697
Infrastructure	64,051	86,967	0	151,018
Total capital assets, being depreciated	433,235	93,458	0	526,693
Less accumulated depreciation for:				
Buildings	7,288	399	0	7,687
Land Improvements	3,900	600	0	4,500
Machinery and Equipment	211,650	26,134	0	237,784
Infrastructure	2,618	6,101	0	8,719
Total accumulated depreciation	225,456	33,234	0	258,690
Total capital assets, being depreciated, net	207,779	60,224	0	268,003
Governmental activities capital assets, net	\$ 352,792	\$ 60,224	\$ 0	\$ 413,016

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 5,532
Public Safety	20,078
Public Works	6,101
Culture and Recreation	1,523
Total depreciation expense - governmental activities	<u>\$ 33,234</u>

Construction Commitments:

The government has no outstanding construction commitments as of June 30, 2007.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at June 30, 2007, were:

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 12,304	\$ 0
Special Revenue Funds		
Fire	0	1,075
Fiduciary Funds		
Current Tax Collection	0	11,229
	<u>\$ 12,304</u>	<u>\$ 12,304</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances are expected to be resolved within one year.

As of June 30, 2007, there were no Interfund Transfers.

Transfers are used to: (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-Term Debt

The following is a summary of the long-term debt transactions of Boardman Township for the year ended June 30, 2007:

	<u>NOTES PAYABLE</u>
Long-Term Debt Payable at July 1, 2006	\$ 94,985
New Debt Incurred	0
Payments on Debt	<u>(23,168)</u>
LONG-TERM DEBT PAYABLE AT JUNE 30, 2007	<u>\$ 71,817</u>
Due within one year	<u>\$ 6,745</u>

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Notes Payable:

\$80,000 note payable due in monthly installments of \$849
through February 10, 2016; interest at 5%, secured by land \$ 71,817

The annual requirements to amortize debt outstanding as of June 30, 2007, are as follows:

Year Ending	Principal	Interest	Total
June 30, 2008	\$ 6,745	\$ 3,437	\$ 10,182
June 30, 2009	7,090	3,092	10,182
June 30, 2010	7,452	2,730	10,182
June 30, 2011	7,834	2,348	10,182
June 30, 2012	8,235	1,947	10,182
June 30, 2013-2016	34,461	3,371	37,832
Total	<u>\$ 71,817</u>	<u>\$ 16,925</u>	<u>\$ 88,742</u>

The Township is currently not liable for any special assessment debt obligation.

F. Fund Balance Reserves and Designations

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances/retained earnings in various funds. In addition, certain portions of unreserved fund balances/retained earnings have been designated for intended future uses. These reserves and designations are detailed in the following schedule:

FUND BALANCE

Reserved

General Fund

Right-of-Way Maintenance	\$ 4,837	
Prepaid Expenditures	<u>8,095</u>	12,932

Special Revenue Funds

Fire Fund

Fire Protection	22,048	
-----------------	--------	--

Road Fund

Road Improvements	<u>177,622</u>	199,670
-------------------	----------------	---------

TOTAL FUND BALANCE RESERVES		<u>\$ 212,602</u>
-----------------------------	--	-------------------

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions insurance and workers' compensation. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2007

	GENERAL FUND			FIRE FUND			ROAD IMPROVEMENT FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>									
Taxes	\$ 26,827	\$ 26,827	\$ 44,964	\$ 33,000	\$ 33,000	\$ 33,055	\$ 60,000	\$ 60,000	\$ 66,114
Licenses and Permits	8,000	8,000	4,390	0	0	0	0	0	0
Federal Grants	0	0	1,349	0	0	0	0	0	0
State Grants	110,000	110,000	105,671	0	0	0	0	0	0
Contributions from Local Units	0	0	0	16,300	16,300	10,512	0	0	0
Charges for Services	7,000	7,000	6,056	0	0	0	0	0	0
Interest and Rents	4,000	4,000	9,457	0	0	400	0	0	6,633
Other Revenues	6,000	6,000	1,984	0	0	300	0	0	0
Total Revenues	161,827	161,827	173,871	49,300	49,300	44,267	60,000	60,000	72,747
<u>EXPENDITURES</u>									
Legislative	28,500	28,500	16,361	0	0	0	0	0	0
General Government	85,000	85,000	91,387	0	0	0	0	0	0
Public Safety	21,000	21,000	19,725	64,360	64,360	33,954	0	0	0
Public Works	8,500	8,500	5,635	0	0	0	145,000	145,000	86,967
Health and Welfare	280	280	304	0	0	0	0	0	0
Community and Economic Development	4,000	4,000	3,103	0	0	0	0	0	0
Recreation and Culture	15,500	15,500	15,694	0	0	0	0	0	0
Debt Service	0	0	10,182	0	0	17,350	0	0	0
Contingency	20,000	20,000	0	0	0	0	0	0	0
Total Expenditures	182,780	182,780	162,391	64,360	64,360	51,304	145,000	145,000	86,967
Excess (Deficiency) of Revenues Over Expenditures	(20,953)	(20,953)	11,480	(15,060)	(15,060)	(7,037)	(85,000)	(85,000)	(14,220)
<u>FUND BALANCE</u> - Beginning of Year	98,000	98,000	243,954	0	0	29,085	0	0	191,842
<u>FUND BALANCE</u> (DEFICIT) - End of Year	\$ 77,047	\$ 77,047	\$ 255,434	\$ (15,060)	\$ (15,060)	\$ 22,048	\$ (85,000)	\$ (85,000)	\$ 177,622

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

GENERAL FUND

COMPARATIVE BALANCE SHEET
JUNE 30, 2007

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash	\$ 90,300	\$ 100,103
Investments	134,921	128,512
Prepaid Expenditures	8,095	0
Due from Other Funds	12,304	3,958
Due from Other Governments	15,542	14,905
	<u>15,542</u>	<u>14,905</u>
TOTAL ASSETS	<u>\$ 261,162</u>	<u>\$ 247,478</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 4,684	\$ 2,534
Accrued Expenditures	1,044	990
	<u>1,044</u>	<u>990</u>
Total Liabilities	<u>5,728</u>	<u>3,524</u>
<u>FUND BALANCE</u>		
Reserved for Prepaid Expenditures	8,095	0
Reserved for Right-of-Way Maintenance	4,837	3,196
Unreserved	242,502	240,758
	<u>242,502</u>	<u>240,758</u>
Total Fund Balance	<u>255,434</u>	<u>243,954</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 261,162</u>	<u>\$ 247,478</u>

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 26,827	\$ 44,964	\$ 44,844
Licenses and Permits	8,000	4,390	3,516
Federal Grants	0	1,349	0
State Grants	110,000	105,671	122,214
Charges for Services	7,000	6,056	6,451
Interest and Rents	4,000	9,457	9,543
Other Revenues	6,000	1,984	135
Total Revenues	161,827	173,871	186,703
<u>EXPENDITURES</u>			
Legislative			
Township Board	28,500	16,361	13,970
General Government			
Supervisor	11,000	14,386	10,791
Election	3,500	4,930	1,516
Assessor	12,000	13,964	11,732
Legal Fees	3,000	1,213	5,012
Clerk	16,000	18,788	14,864
Board of Review	1,500	1,801	1,383
Treasurer	16,000	18,107	17,657
Building and Grounds	10,000	11,052	8,030
Cemetery	12,000	7,146	6,396
Public Safety	21,000	19,725	19,725
Public Works	8,500	5,635	6,652
Health and Welfare	280	304	280
Recreation and Culture	15,500	15,694	113,501
Community and Economic Development	4,000	3,103	2,718
Debt Service	0	10,182	2,546
Contingency	20,000	0	0
Total Expenditures	182,780	162,391	236,773
Excess of Revenues Over (Under) Expenditures	(20,953)	11,480	(50,070)

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2007
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out	0	0	(40,843)
Loan Proceeds	0	0	80,000
Total Other Financing Sources (Uses)	0	0	39,157
Net Change in Fund Balance	(20,953)	11,480	(10,913)
<u>FUND BALANCE</u> - Beginning of Year	98,000	243,954	254,867
<u>FUND BALANCE</u> - End of Year	<u>\$ 77,047</u>	<u>\$ 255,434</u>	<u>\$ 243,954</u>

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

FIRE FUND

COMPARATIVE BALANCE SHEET
JUNE 30, 2007

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash	\$ 23,281	\$ 30,465
Due from Other Funds	<u>0</u>	<u>68</u>
Total Assets	<u>\$ 23,281</u>	<u>\$ 30,533</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 158	\$ 373
Due to Other Funds	<u>1,075</u>	<u>1,075</u>
Total Liabilities	1,233	1,448
<u>FUND BALANCE</u>		
Reserved for Fire Protection	<u>22,048</u>	<u>29,085</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 23,281</u>	<u>\$ 30,533</u>

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

FIRE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 33,000	\$ 33,055	\$ 29,197
Contributions from Local Units			
Orange Township	16,300	10,512	8,670
Interest and Rents			
Interest	0	400	280
Other			
Contributions and Donations	0	300	0
Refunds and Reimbursements	0	0	3,226
Total Revenues	<u>49,300</u>	<u>44,267</u>	<u>41,373</u>
<u>EXPENDITURES</u>			
Public Safety			
Fire Protection			
Personal Services			
Salaries and Wages	47,010	11,125	15,700
Employee Benefits	0	1,115	1,201
Supplies			
Operating Supplies	0	909	729
Fuel	0	1,173	1,333
Other Services and Charges			
Repair and Maintenance	0	1,408	1,397
Public Utilities	0	3,881	4,315
Insurance	0	14,003	13,495
Travel and Education	0	90	440
Dues and Subscriptions	0	100	100
Bank Fees	0	120	133
Miscellaneous	0	30	0

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

FIRE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
Debt Service			
Principal	16,752	16,752	16,166
Interest	598	598	1,195
Total Expenditures	64,360	51,304	56,204
Excess (Deficiency) of Revenues Over Expenditures	(15,060)	(7,037)	(14,831)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	0	0	40,843
Net Change in Fund Balance	(15,060)	(7,037)	26,012
<u>FUND BALANCE</u> - Beginning of Year	0	29,085	3,073
<u>FUND BALANCE</u> (Deficit) - End of Year	\$ (15,060)	\$ 22,048	\$ 29,085

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

ROAD FUND

COMPARATIVE BALANCE SHEET
JUNE 30,

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash	<u>\$ 177,622</u>	<u>\$ 191,842</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>	0	0
<u>FUND BALANCE</u>		
Reserved for Road Improvements	<u>177,622</u>	<u>191,842</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$177,622</u>	<u>\$191,842</u>

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

ROAD FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 60,000	\$ 66,114	\$ 57,928
Interest and Rents			
Interest	0	6,633	4,321
Total Revenues	60,000	72,747	62,249
<u>EXPENDITURES</u>			
Public Works			
Highways, Streets and Bridges			
Other Services and Charges			
Repairs and Maintenance	0	0	95
Capital Outlay	145,000	86,967	64,051
Total Expenditures	145,000	86,967	64,146
Excess (Deficiency) of Revenues Over Expenditures	(85,000)	(14,220)	(1,897)
<u>FUND BALANCE</u> - Beginning of Year	0	191,842	193,739
<u>FUND BALANCE</u> - (Deficit) End of Year	\$ (85,000)	\$ 177,622	\$ 191,842

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - ALL AGENCY FUNDS
YEAR ENDED JUNE 30, 2007

	BALANCE			BALANCE
	7/1/2006	ADDITIONS	DEDUCTIONS	6/30/2007
<u>CURRENT TAX COLLECTION FUND</u>				
<u>ASSETS</u>				
Cash	\$ 2,883	\$ 864,718	\$ 860,022	\$ 7,579
Due from Other Governments	0	3,650	0	3,650
Total Assets	<u>\$ 2,883</u>	<u>\$ 868,368</u>	<u>\$ 860,022</u>	<u>\$ 11,229</u>
<u>LIABILITIES</u>				
Due to Other Organizations and Individuals	\$ 0	\$ 2,611	\$ 2,611	\$ 0
Due to Other Governments	0	746,683	746,683	0
Due to Other Funds	2,883	119,074	110,728	11,229
Total Liabilities	<u>\$ 2,883</u>	<u>\$ 868,368</u>	<u>\$ 860,022</u>	<u>\$ 11,229</u>
<u>TRUST AND AGENCY</u>				
<u>ASSETS</u>				
Cash	<u>\$ 854</u>	<u>\$ 903</u>	<u>\$ 1,031</u>	<u>\$ 726</u>
<u>LIABILITIES</u>				
Due to Other Governments	786	603	663	726
Due to Other Funds	68	300	368	0
Total Liabilities	<u>\$ 854</u>	<u>\$ 903</u>	<u>\$ 1,031</u>	<u>\$ 726</u>

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - ALL AGENCY FUNDS
YEAR ENDED JUNE 30, 2007

	BALANCE			BALANCE
	7/1/2006	ADDITIONS	DEDUCTIONS	6/30/2007
<u>TOTALS - ALL AGENCY FUNDS</u>				
<u>ASSETS</u>				
Cash	\$ 3,737	\$ 865,621	\$ 861,053	\$ 8,305
Due from Other Governments	0	3,650	0	3,650
Total Assets	<u>\$ 3,737</u>	<u>\$ 869,271</u>	<u>\$ 861,053</u>	<u>\$ 11,955</u>
<u>LIABILITIES</u>				
Due to Other Organizations and Individuals	\$ 0	\$ 2,611	\$ 2,611	\$ 0
Due to Other Governments	786	747,286	747,346	726
Due to Other Funds	2,951	119,374	111,096	11,229
Total Liabilities	<u>\$ 3,737</u>	<u>\$ 869,271</u>	<u>\$ 861,053</u>	<u>\$ 11,955</u>

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN
STATEMENT OF 2006 TAX ROLL
JUNE 30, 2007

TAXES ASSESSED

County	\$	230,394	
County - State Education Tax		197,632	
Kalkaska Public Transit		8,225	
Kalkaska Memorial Hospital		55,969	
Township			
Operating		28,688	
Roads		65,841	
Fire Protection		32,917	
Schools			
Forest Area Community Schools		282,932	
Intermediate School			
Traverse Bay Area		96,868	\$ 999,466

TAXES COLLECTED

County	199,913	
County - State Education Tax	172,110	
Kalkaska Public Transit	6,931	
Kalkaska Memorial Hospital	47,158	
Township		
Operating	24,170	
Roads	55,482	
Fire Protection	27,738	
Schools		
Forest Area Community Schools	240,743	
Intermediate School		
Traverse Bay Area	81,616	855,861

BOARDMAN TOWNSHIP, KALKASKA COUNTY
SOUTH BOARDMAN, MICHIGAN
STATEMENT OF 2006 TAX ROLL
JUNE 30, 2007

TAXES RETURNED DELINQUENT

County	30,481	
County - State Education Tax	25,522	
Kalkaska Public Transit	1,294	
Kalkaska Memorial Hospital	8,811	
Township		
Operating	4,518	
Roads	10,359	
Fire Protection	5,179	
Schools		
Forest Area Community Schools	42,189	
Intermediate School		
Traverse Bay Area	15,252	\$ 143,605

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
www.bcbcpa.com

November 27, 2007

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board
Boardman Township
Kalkaska County
South Boardman, Michigan

During the course of our audit of the financial statements of Boardman Township for the year ended June 30, 2007, we noted the following:

Budgeting

P.A. 621 of 1978 states that the budget document that the Township adopts include the amount of fund balance accumulated through the end of the current year, and the amount expected at the end of the upcoming year, after applying the budgeted revenues and expenditures. The Fire Fund and Road Fund budgets did not include beginning fund balances.

The Township board is also responsible for amending the budget during the year to allow for expenditures in excess of original appropriations, or to reduce appropriations if it appears the actual expenditures will be much less than originally appropriated. Amendments should be done prior to year end.

The expenditures of activities in the General Fund exceeded the budgeted amount.

The adoption of the budgets for each fund should be clearly noted in the board minutes, as well as any amendments to the budget throughout the year.

A complete budget should be adopted for each of the Township's funds with the items listed above.

Reconciliations of Clerk and Treasurer Ledgers

We recommend that the Treasurer and Clerk reconcile their bank account balances with each other on a monthly basis. A complete and accurate bank reconciliation that reconciles from the bank balance to the book balance should be prepared each month for each bank account. This will facilitate a continuous balancing of records and help strengthen internal controls.

Telecommunications Right-of-Way (Metro Act)

Currently the Township receives funds from the State of Michigan related to the Metro Act. Provisions of this Act require the Township to expend these funds on specific expenditures related to road right-of-ways. As of June 30, 2007, the Township had \$4,837 reserved for these types of expenditures. A list of allowable expenditures is available at the State of Michigan website.

Balance in the Tax Collection Fund

The Township had tax collections in the tax collection fund that were not distributed by year end. In the future these disbursements should be done in accordance with Department of Treasury regulations.

We would like to thank the board for its confidence in our firm and to thank the township clerk, treasurer and supervisor for their cooperation.

If you have any questions or need assistance relative to the above items or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

www.bcbcpa.com

November 27, 2007

To the Township Board
Boardman Township
Kalkaska County
South Boardman, Michigan

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Boardman Township, Kalkaska County, South Boardman, Michigan as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Boardman Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiencies described in (1) above (Lack of Segregation of Duties) constitute a material weakness.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P. C.

Baird, Cotter & Bishop, P.C.